

AR23



17TH ANNUAL REPORT

JANUARY 31, 1963



GORDON MACKAY
& STORES LIMITED

GORDON MACKAY & STORES LIMITED

SUBSIDIARY COMPANIES

Gordon Mackay and Company Limited

— Gordon Mackay Division

— Walker's Division

C. H. Smith Company Limited Gordon Mackay Eastern Limited

Walker Stores Limited

Retail Stores are operated by the C. H. Smith Company Limited in Windsor, Ontario, and by Walker's Division of Gordon Mackay and Company Limited in:—

Arnprior	Guelph	Pembroke	Stratford
Barrie	Kitchener	Peterborough	Tillsonburg
Bowmanville	Midland	Port Colborne	Toronto
Brockville	Newmarket	Renfrew	Cloverdale Mall
Chatham	Niagara Falls	Ridgetown	Dixie Plaza
Collingwood	North Bay	St. Catharines	Dufferin Plaza
Dunnville	Orillia	St. Thomas	Golden Mile Plaza
Fort William	Oshawa	Simcoe	Parkway Plaza
Galt	Owen Sound	Smiths Falls	Rexdale Plaza
			Shopper's World
			Woodstock

(The cover photograph shows The Presidential Judy Award, presented by the Garment Salesmen Ontario Market Inc., for merchandising excellence and won by Walker's in 1962.)

GORDON MACKAY & STORES LIMITED

Board of Directors

AUBREY W. BAILLIE	WILLIAM L. WHELER
W. G. MACKENZIE ROBINSON, O.B.E., C.A.	W. BLAKENEY WOODS, D.F.C.
JAMES W. WALKER, O.B.E., Q.C.	DAVID M. WOODS
WILLIAM P. WALKER, O.B.E.	J. DOUGLAS WOODS, O.B.E.
PETER L. WOODS	

Officers

President
DAVID M. WOODS

Vice-President
JAMES W. WALKER, O.B.E., Q.C.

Secretary-Treasurer
G. MARTYN SCOTT, C.A.

Head Office

GORDON MACKAY ROAD, BOX 530, TORONTO 15, ONTARIO

<i>Transfer Agents</i>	<i>Counsel</i>	<i>Auditors</i>
National Trust Company, Limited Toronto	McCarthy & McCarthy Toronto	Clarkson, Gordon & Co. Toronto

DIRECTORS' REPORT

TO THE SHAREHOLDERS OF GORDON MACKAY & STORES LIMITED

Consolidated income from operations before depreciation amounted to \$588,293 compared with \$493,534 for the year ended January 31st, 1962. Depreciation charges of \$406,434 were \$23,097 greater than last year and reduced the income before tax to \$181,859. Last year, the comparable figure was \$110,197. After provision for taxes on income and certain non-recurring items, the net income was \$97,516 compared with a loss of \$102,337 for the previous year.

Earned surplus at January 31st, 1962, was increased by the above net income of \$97,516 to a total of \$3,430,843, out of which dividends at the rate of 50¢ per A share and 50¢ per B share and totalling \$201,600 were declared and paid, leaving the earned surplus at January 31st, 1963, at \$3,229,243.

Working Capital at January 31st, 1963, is \$2,502,534, down \$354,800 from the total of a year ago. This decrease represents the excess of net expenditures on fixed assets and mortgage reductions, totalling \$657,150 and dividends paid of \$201,600 over the net income for the year and the depreciation charges for the year, which together totalled \$503,950.

During the past year the Walker Division continued to make satisfactory sales gains and the year ended with a sales increase of 16.7%, although profits were affected by increased expense and heavy merchandising markdowns. One new store was added, with the opening of a unit in the Shoppers' World centre in Toronto, and with the closing of one small store, there were thirty-seven stores in operation at the year end. Our credit plan has been well accepted and has resulted in the addition of a large number of new accounts.

The C. H. Smith Company in Windsor showed a modest gain in sales, a creditable performance in view of competition from two large discount stores in that city.

Last year's report referred to the decision to develop our conventional stores through emphasis on service and fashions, improved buying, upgrading of price lines, centralization of advertising and promotion, and an enlarged staff training programme. This decision has proved sound and has resulted in the sales increase noted above.

Several highlights deserve attention. Our emphasis on fashion and trading up into moderately higher price lines has drawn new customers to our stores. We are directing special attention to the teen age group, where we have developed an appeal to the Young

Adults, with related merchandise and promotional activities. Our development of fashions led to our winning the Judy fashion award for 1962, a reproduction of which appears on the cover of this report. The Judy Award is presented annually, and is the principal fashion award open to Ontario retailers.

During the coming year it is intended to pursue existing policies. Emphasis is being laid on improving our merchandising results and enlarging and improving existing store facilities. No new store openings are planned this year. It is anticipated that our results will show an improvement over the year just finished.

A subsidiary company has been formed to undertake development in the field of Young Adult merchandising. With the support of other non-competing firms interested in this field, Young Adult Fashion Council Limited is designed to provide education and training for girls in the teen age group. The first meeting of the Council was held at Toronto's O'Keefe Centre, where 2,500 Young Adults responded enthusiastically to a showing of Walker's fashions.

During the year the Gordon Mackay Division opened two leased operations in mass merchandising stores. While this development has not yet produced satisfactory results, we anticipate that it will contribute moderately to overall profit. In Canada the discount store development does not appear to have been as successful as was originally anticipated. The increase in new retail store space following the rapid development of new mass merchandising stores and the aggressive development of conventional department and chain stores has resulted in severe retail competition throughout the year.

The discontinuance of our wholesale businesses was completed during the year. This was carried out substantially within the anticipated costs which we included in last year's report.

While there has been increased interest in our principal warehouse and office building in recent months, this property remains unsold.

Your Directors wish to record their appreciation of the loyal support of all members of the staff during the past year.

On behalf of the Board,

D. M. WOODS,

Toronto, April 16, 1963.

President

GORDON MACKAY

(Incorporated under
and it)

CONSOLIDATED BALANCE SHEET
JANUARY 31, 1963
(with comparative figures at January 31, 1962)

	ASSETS	1963	1962
Current assets:			
Cash		\$ 159,749	\$ 84,716
Investment in listed stocks, at cost less amounts written off (market value, 1963 \$113,312, 1962 \$59,000)		100,258	100,258
Accounts receivable		1,779,124	1,894,784
Inventories of merchandise valued at the lower of cost or market		2,815,358	3,468,619
Store supplies, prepaid insurance and sundry assets		78,510	94,726
Total current assets		\$4,932,999	\$5,643,103
Properties and equipment:			
Buildings and equipment, at cost		\$6,373,290	\$6,249,870
Less accumulated depreciation		3,374,264	3,422,868
		\$2,999,026	\$2,827,002
Land, at cost		862,177	891,485
Total properties and equipment		\$3,861,203	\$3,718,487
		\$8,794,202	\$9,361,590

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:			
Bank borrowings		\$1,557,410	\$1,613,265
Owing for merchandise, wages, etc.		689,042	1,095,974
Taxes payable		76,013	58,530
Mortgage principal due within one year		108,000	18,000
Total current liabilities		\$2,430,465	\$2,785,769
Mortgage payable			\$ 108,000
Shareholders' equity:			
Capital —			
Authorized:			
300,000 Class A shares without nominal or par value, entitled to a fixed cumulative dividend of fifty cents per share per annum in priority to dividends on the Class B shares			
300,000 Class B shares without nominal or par value (note 1)			
Issued:			
201,600 Class A shares		\$ 360,000	\$ 360,000
201,600 Class B shares			
Reserve for contingencies		100,000	100,000
Contributed surplus (unchanged during year)		2,674,494	2,674,494
Earned surplus		3,229,243	3,333,327
Total shareholders' equity		\$6,363,737	\$6,467,821
		\$8,794,202	\$9,361,590

STORES LIMITED
 laws of Ontario)
 subsidiaries

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS

YEAR ENDED JANUARY 31, 1963

(with comparative figures for the year ended January 31, 1962)

	<u>1963</u>	<u>1962</u>
Income from operations before depreciation and income taxes	\$ 588,293	\$ 493,534
Depreciation	<u>406,434</u>	<u>383,337</u>
Income from operations before income taxes	\$ 181,859	\$ 110,197
Income taxes (note 2)	<u>70,832</u>	<u>34,510</u>
Net income from operations	\$ 111,027	\$ 75,687
Non-recurring loss on liquidation of Toronto wholesale division less applicable income tax reduction in 1963	(13,511)	(193,838)
Profit on disposal of land, buildings and equipment	<u>15,814</u>	
Net income (loss) for the year	\$ 97,516	\$ (102,337)
Earned surplus at beginning of year	<u>3,333,327</u>	<u>3,787,264</u>
	<u>\$3,430,843</u>	<u>\$3,684,927</u>
Dividends paid to shareholders:		
On Class A shares — 50¢ per share	\$ 100,800	\$ 100,800
On Class B shares — 50¢ per share	100,800	100,800
Special provision for loss on liquidation of wholesale operations of Gordon Mackay Eastern Limited	<u>150,000</u>	
	<u>\$ 201,600</u>	<u>\$ 351,600</u>
Earned surplus at end of year	<u>\$3,229,243</u>	<u>\$3,333,327</u>

Notes:

- Under the company's Incentive Stock Option Plan, options are outstanding at \$10 per share on 7,000 shares of the presently unissued Class B shares.
- Taxes payable on income for the year have been reduced by approximately \$11,000 through tax losses carried forward from prior years. Further tax losses aggregating approximately \$388,700 are available to reduce future taxable income in certain of the subsidiary companies.
- The companies have entered into a number of leases for retail stores, some of which extend over periods up to 20 years.
- Two subsidiary companies have been named co-defendants with another company in an action for breach of contract and conspiracy to induce a breach of contract. In the opinion of the companies' legal advisers the probability of substantial damages being assessed against the companies as a result of this action is remote. No provision for loss arising from this suit has been made in the accounts.

On behalf of the Board,

D. M. WOODS, Director
 J. W. WALKER, Director

AUDITORS' REPORT

To the Shareholders of Gordon Mackay & Stores Limited:

We have examined the consolidated balance sheet of Gordon Mackay & Stores Limited and its subsidiaries as at January 31, 1963 and the statement of consolidated income and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statement of consolidated income and earned surplus present fairly the consolidated financial position of the companies as at January 31, 1963 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
 April 2, 1963.

CLARKSON, GORDON & Co.
 Chartered Accountants.

